

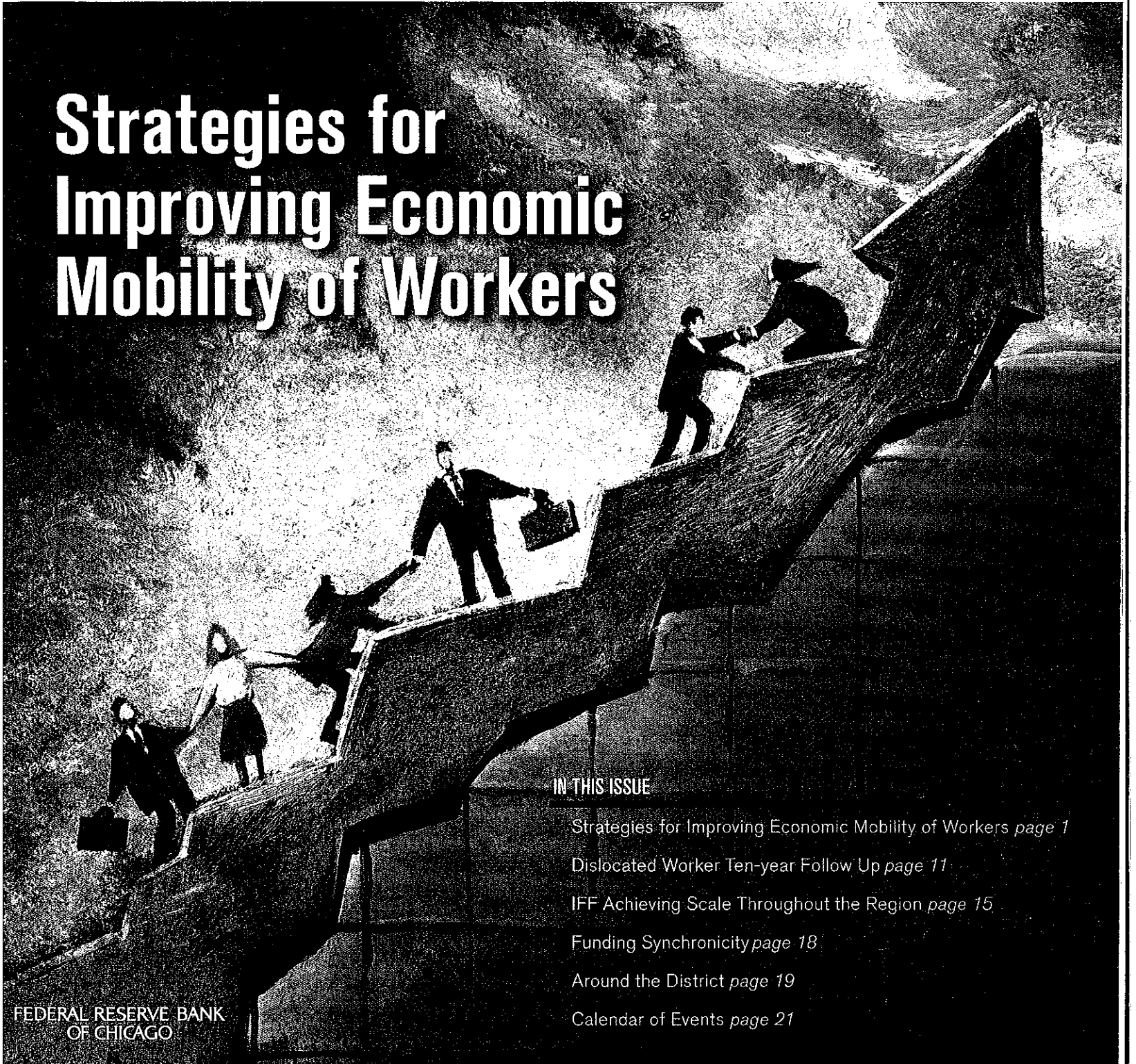
Profitwise

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Strategies for Improving Economic Mobility of Workers



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FEDERAL RESERVE BANK
OF CHICAGO

IFF Achieving Scale Throughout the Region

by Trinita Logue

IFF (formerly Illinois Facilities Fund) became a regional community development financial institution (CDFI) in 2007, extending its reach beyond Illinois to include Iowa, Missouri, and Wisconsin. This year, the expansion has continued into Indiana. In January 2008, IFF added a new office in St. Louis at 1221 Locust Street to augment the local service of existing offices in Chicago and Peoria. The new office helps support the mission of meeting the real estate financing needs of nonprofits across the region.

In 2007, IFF approved more than \$37 million in loans to 75 nonprofit agencies, including six loans in Iowa and Indiana, nine loans in Missouri, and ten in Wisconsin. IFF's funds leveraged \$92 million from other entities. More than 75 percent of clients (over 367,000) served by these borrowers are low-income.

Key benchmarks

- In early 2008, IFF closed its 600th loan, and this year expects to make 120 loans to agencies working in or serving low-income and disadvantaged communities across the region.
- This year also marks the 20th anniversary of IFF. Over that span, IFF has provided \$182 million in funds to nonprofits of all kinds, thanks largely to its investors and partners.

Investors make the difference

The expansion also opens the possibility of new partnerships with financial institutions. IFF has worked with many financial institutions during its 20 years. One reason IFF has been able to get their support is the fact that the collaboration could assist an institution in meeting the requirements of the Community Reinvestment Act. Since IFF-financed facilities are typically located in low-income areas, or serve low-income populations, depending on the involvement, a financial institution can receive investment credit (meeting credit needs through investments and grants) for providing funds to IFF and/or lending credit (meeting credit needs through direct and indirect lending). Of course, in doing this, a financial institution also must meet the needs of its local area. IFF's work with financial institutions provides substantial funding for IFF's lending program, and these same institutions also share loans with IFF to extend their reach to loans they might not otherwise be able to make.

New or recent investors include First Bank (\$1 million), M&I Community Development (\$500,000), Wells Fargo (\$1 million), and ShoreBank (\$3 million). These below market rate investments enable the IFF loan program to continue its growth throughout the Midwest

region. The total of \$5.5 million, at IFF's average loan amount of \$430,000, translates into more than 12 loans to nonprofits. IFF's funds leverage other funds by a factor of 2.4; the investment in IFF results in over \$13 million in capital investment into low-income communities.

Equally important, the investors achieve their goals of reaching communities and borrower types (i.e., primary health clinics, food pantries and shelters, special needs, and supportive housing) that they may not otherwise be able to serve. IFF loans provide the nonprofit borrower with beneficial terms and an experienced nonprofit lender.

One of IFF's investment vehicles for banks is the Investor Consortium. Through the consortium, IFF issues notes backed by its real estate loans. By participating in one of the consortium notes, a bank is able to extend its reach to an investment in a diversified pool of IFF loans. IFF provides monitoring, collection, and servicing, including detailed reporting on the portfolio.

Principal and interest on the notes are payable from the principal and interest payments received by IFF. Collateral also includes a 2 percent cash reserve fund, which is held by a trustee together with collateral documents. The interest rate for each note is the interest received on the IFF

loans each note series, less IFF's servicing fee, with a floor of 3 percent. Pledges to purchase notes may be made in minimum amounts of \$500,000.

To find out more about investing with IFF, contact CFO Michael Hedrick via email at mhedrick@iff.org.

IFF loans making the difference

An example of how IFF can work with an agency comes from Streator, an economically distressed town of 14,000 in north central Illinois. Streator Unlimited is a nonprofit corporation providing education, training, and support for the town's adults with developmental disabilities. Once a booming manufacturing town known as the "Glass Container Capital of the World," globalization has shifted industry abroad, leaving a community struggling to adapt to a different business environment.

One of Streator Unlimited's most important services is supervised employment for the developmentally disabled in a factory workshop. Employees in the workshop develop life and work skills while striving towards economic self-sufficiency, although most of the employees will always require support and supervision in order to remain independent. In June 2004, Streator Unlimited lost a manufacturing contract to powder coat metal parts to a company operating in China. The contract, worth \$450,000 in annual revenue, had been 60 percent of the revenue for years, and enabled Streator Unlimited to maintain jobs for 72 adults. The agency was left in a difficult financial position while continuing to care for vulnerable individuals whose ability to support themselves was limited by their disability and the lack of other appropriate jobs, particularly due to the economic distress of the entire town.

Streator Unlimited chose to keep the workers on staff for a period of time while reorganizing its factory services to

be competitively aligned with new market conditions. This decision would not have been justifiable based on the financial bottom line. It took the Board of directors about ten months to respond and adapt. However, Streator Unlimited's financial decisions were made for the benefit of the adults with developmental disabilities it serves.

As a result of their decisions and the time invested, the agency operated at a deficit for two years. IFF assisted by refinancing debt as part of an overall restructuring (the \$566,000 loan was approved in February 2008), with the goal of cutting costs while Streator Unlimited recovers and continues to meet its mission.

IFF often collaborates with a financial institution by taking a second mortgage position. For example, Family Christian Health Center (FCHC) in Harvey, Illinois, operates a clinic for comprehensive dental services, psychological services, and other human services for low-income residents. The clinic is open six days a week and provides primary health care for all patients, regardless of their ability to pay; 60 percent of its patients are at or below 200 percent of poverty line (about \$20,000 x 2 for a family of four in 2006 for Cook County). Eighty percent of FCHC's patients receive Medicaid coverage, and many of the balance are uninsured. Dental care is a new service of FCHC, and 4,000 patients were seen in the first year. The clinic expects the number of individuals treated to soon reach 10,000 annually.

Family Christian came to IFF for a \$750,000 loan to cover part of the construction costs of a new 21,000 square foot health care center and purchase of equipment. The facility provides 24 primary care exam rooms and six rooms for OB/GYN appointments. IFF's loan is in addition to a \$1.7 million first mortgage from MB Financial and a \$900,000 grant from the Department of Health and Human Services.

In this example, IFF's loan derived through an allocation of New Markets Tax Credits (NMTC). IFF received an allocation of the credits and "sold" them to an entity formed between IFF and J.P. Morgan Chase. In exchange for up front equity, J.P. Morgan Chase receives tax credits over the course of seven years.

A further example of IFF partnering with other institutions took place in Milwaukee. The Wisconsin Regional Training Partnership (WRTP) works with employers and unions to recruit and train new employees, upgrade skills of current workers, modernize facilities, and adopt improved workplace practices. All of the agency's clients are designated as low-income – 89 percent of them are men.

WRTP recognized a need for improved and additional space. It decided to embark on a three-phase project: acquisition of a property; build-out of administrative and program space; installation of an elevator; and renovation of the basement. The total project cost was more than \$2 million. WRTP planned to conduct a three-year capital campaign to cover the costs, but did not want to wait for the campaign to be complete before the project could start. Instead, WRTP worked with U.S. Bank and gained approval for a first mortgage of \$840,000. IFF provided a second mortgage of \$303,000. IFF was also able to provide a \$613,000 loan to bridge the capital campaign proceeds. With U.S. Bank and IFF loans in place, WRTP also obtained a Program Related Investment of \$250,000 from the Helen Bader Foundation of Milwaukee. The combination of these funds made possible the much-needed new facility for low-income workers in the area.

"Nonprofits are in the business of providing invaluable services on constrained government contracts or in certain cases, a private market contract. The commitment to their mission drives their most challenging and complex business plans and financial decisions, yet these are often not aligned with

market forces," said Nicole Mandeville, loan officer at IFF. IFF's underwriting enables borrowers to obtain financing when environmental factors may not be working in their favor. IFF's collaboration with other financial institutions and funders, through investments and lending collaboration, enables nonprofits to meet the needs of their communities and continue to operate in a dynamic economic and financial environment, delivering essential services to special needs and low-income communities.

For more information on the IFF, visit www.iff.org or call toll-free (866) 629-0060.

BIOGRAPHY

Trinita Logue is the founding president and chief executive officer of IFF. Ms. Logue conceptualized and created IFF while serving as assistant director of the Chicago Community Trust. Ms. Logue's civic and professional affiliations currently include serving as a director of First Nonprofit Trust Companies, a proprietary insurance company that provides coverage to nonprofit organizations in six states. She is also a member of Northwestern University's Kellogg School of Management Public and Nonprofit Advisory Committee, a director and member of the Executive Committee of the Donors Forum of Chicago, a member of the Attorney General's Charitable Advisory Committee, a member of the Governor's Early Learning Council, and a member of The Chicago Network. Ms. Logue also serves on the St. Louis Federal Reserve Bank Community Development Advisory Council.